

AGENCY OPTIONS

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Employer Pickup of Retirement Contributions (Tax Sheltering)

The participating agency may request information from the ERS about tax-sheltering employee contributions. The tax-sheltering plan provides tax savings for the majority of public employees. Information and a model resolution can be mailed to you upon request. You may also wish to contact the ERS and discuss the tax-sheltering provision.

Implementation of tax-sheltering is solely at the discretion of each agency. If the agency elects to tax-shelter employee contributions, the reduction will apply to all employees, except those who are ineligible to participate in the ERS. If the employing agency begins participating in the tax-sheltering, all contributing ERS members must participate. Individual employees cannot be given the option of participating or not participating once the agency begins tax-sheltering.

Regular members of the ERS are required to contribute five percent (5%) of earned compensation. Firefighters, correctional officers, and law enforcement officers, not covered as State Policemen, must contribute six percent (6%) of earned compensation. State Police are required to contribute ten percent (10%) of earned compensation. Retirement contributions are subject to federal income tax and are included as taxable income, unless the agency tax-shelters employee contributions.

At the time of deferral, ERS members will not pay federal income tax on their retirement contributions if the employing agency elects to pay the retirement contribution directly to the ERS. The member has a reduction in federal taxable income and benefits from the agency “picking-up” or tax-sheltering the member’s contributions. Tax deferral of employee contributions does not change the agency’s cost to the ERS.

For all purposes other than federal income taxation, the members’ earnable compensation will be considered to be the same as before the salary reduction and retirement contribution “picked-up” by the employing agency. State income tax, Social Security tax, and Medicare tax will be paid on the members’ full earnable compensation.

Tax-sheltering defers payment of federal income tax on retirement contributions but does not preclude payment of federal income taxes altogether. The member must pay federal income tax on retirement contributions when the ERS issues a return of contributions upon withdrawal from the RSA or upon payment of benefits at retirement.

To implement the tax-sheltering of retirement contributions, the governing authority for each agency should:

1. Adopt a resolution that is prospective from the date of adoption.
2. Provide a copy of the resolution to the ERS.
3. Implement the necessary payroll procedure and reporting changes to discontinue withholding federal income tax from the retirement contribution. For federal income tax purposes, the member's federal taxable income should be reduced by the amount of the retirement contribution.

Sick Leave Conversion

The provisions of Act 88-904 codified under §36-26-36.1, *Code of Alabama*, 1975, allow an ERS member to convert unused accrued sick leave to service credit at retirement. Conversion of sick leave to service credit is in lieu of any payment the member is entitled to receive for this leave.

The service credit may be applied toward meeting the minimum service requirement for service retirement eligibility (age 60 with 10 years or 25 years of service, regardless of age; or 30 years of service, regardless of age if agency has not elected 25-year retirement eligibility).

The following chart is used by the ERS to convert accumulated sick leave days to months of service credit upon service retirement. The maximum number of days that may be converted is based upon the accrual limit of the employing agency. The sick leave accrual limit of the employing agency determines the amount of sick leave eligible for conversion.

Accumulated Sick Leave Days	Months of Service Credit	Accumulated Sick Leave Days	Months of Service Credit
0 – 10	0	191 – 210	10
11 – 30	1	211 – 230	11
31 – 50	2	231 – 250	12
51 – 70	3	251 – 270	13
71 – 90	4	271 – 290	14
91 – 110	5	291 – 310	15
111 – 130	6	311 – 330	16
131 – 150	7	331 – 350	17
151 – 170	8	351 - 370	18
171 - 190	9		

To adopt the provisions of Act 88-904, the governing body of the ERS participating agency must adopt a resolution, which must be forwarded to the ERS. The ERS will provide a sample copy of a resolution at the request of an official of the agency.

Twenty-Five (25) Year Retirement

ERS members may retire at any age with twenty-five (25) or more years of service, provided the participating ERS agency has adopted and funded Act 88-548. If the agency has not adopted this Act, the member may retire at any age with thirty (30) or more years of service. All agencies electing ERS participation after October 1, 1988, are required to operate under the provisions of ACT 88-548: retiring with twenty-five (25) or more years of service at any age.

The governing board of the participating ERS agency must adopt a resolution. The ERS will provide a sample resolution at the request of an official of the agency. The ERS recommends that before an agency elects to adopt this provision, the agency has an actuarial study computed to determine the cost associated with the implementation of this provision.

Cost-of-Living Increases

Cost-of-living increases for ERS retirees are provided on an *ad hoc* basis. The Alabama Legislature occasionally passes into law a cost-of-living increase for ERS retirees. The amount of any increase will be based upon the provisions of the legislation.

Cost-of-living increases for retirees of agencies covered under §36-27-6, *Code of Alabama, 1975*, (non state member agencies) require the approval of the governing body of the ERS agency, which must fund the cost-of-living increase for persons retired from that agency. The ERS will provide information regarding an increase to the agencies on any future increases adopted by the Alabama Legislature.

Including 1978, twelve (12) cost-of-living increases have been passed into law. Recent legislation has allowed for a cost-of-living increase for the beneficiary of a retiree who had selected a monthly survivor option at retirement (Option 2, 3 or 4).

Deferred Retirement Option Plan (DROP)

An agency that elected to participate in the ERS before February 1, 2002, may elect to cover its employees under the Deferred Retirement Option Plan or DROP. Employees of agencies with an effective participation date on or after February 1, 2002, are automatically covered under the DROP provisions. Please refer to the DROP section of this Manual.